

Executive Summary

The USAID Serbia and Montenegro (SAM) Mission will begin implementation of a new multiyear strategy for the Republic of Montenegro in FY2006 (the Strategy) which will serve as the foundation for future programs. The proposed strategic framework described in this document is based on an extensive series of assessments and analyses by local and international experts, stakeholder meetings with central and local government representatives, civil society and other donors, and two two-day retreats with mission staff. Input was also gathered through meetings with Embassy and Washington staff, including the Interagency Country Assistance Review (ICAR) and the Pre-strategy Consultation. Strategy design also incorporated key policy frameworks and guidance embodied in USAID's U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century (known as the "White Paper"), the E & E Bureau Strategic Framework, the State/USAID Strategic Plan and the US Embassy's FY 2007 Mission Performance Plan (MPP).

The Strategy addresses the Republic's development needs, while at the same time remaining in line with U.S. government (USG) foreign policy objectives. It also conforms to new Agency guidance that includes a more visionary and flexible approach to strategy design, arguably further justified in the cases of both Serbia and Montenegro, where a number of political uncertainties, including the status of Kosovo and the State Union of Serbia and Montenegro, could impact country needs as well as USG objectives. The Mission has adopted an innovative approach of strategic objectives that integrates key democracy and economic growth components to respond to this environment. In strategy design, attention was also focused on the comparative contexts and needs of both Serbia and Montenegro, and whether separate strategic frameworks were necessary. Although at different points on the road to development, Serbia and Montenegro face many of the same issues. Accordingly, although the Mission is presenting separate strategy papers for Serbia and Montenegro, the same basic framework and strategic objectives (SOs) apply to both, with differences most likely to emerge below the intermediate result (IR) level, as well as in performance targets.

Like the other transitional countries in the E&E region, Montenegro faces a wide range of developmental obstacles. The move from a centralized to a market economy requires both government and citizens to make difficult choices. Montenegro's efforts to democratize society have been largely supported by the United States and the European Union (EU) through critical financial and technical assistance since October 1997. Although Montenegro is more politically and economically stable than it has been in over a decade, much remains to be done. The legislative and institutional frameworks needed for moving toward a consolidated democratic system are not yet complete. The profound division of society over the issue of redefining or terminating the relationship between Montenegro and Serbia, systemic deficiencies, corruption, political patronage and nepotism continue to constrain the reform process. The resolution of Montenegro's state status should lead to a realignment of the political scene in the long term; however, in the short-term the scheduled parliamentary elections are expected to maintain the current ruling coalition in power with a comfortable majority to govern for the coming years.

While the Government of Montenegro (GOM) must address the task of passing remaining legislation to address social, economic, and political problems, it must increase its institutional capacity to more effectively and efficiently implement those laws that have already been adopted at both republic and local government levels. It should be noted that the resolution of Montenegro's state status will also enable the government to take risks that it has been unwilling to take until now for fear of alienating voters. Thus, the economic reform process could be accelerated; the required layoffs in the state administration and state companies could be implemented; and, other unpopular and painful reforms would have the potential to be addressed. USAID Montenegro's democracy and governance activities under this strategy will significantly focus on providing assistance to the GOM in order to consolidate democratic reforms to date, while economic assistance activities will focus on both stabilizing and improving the economic environment in Montenegro.

This Strategy addresses this challenging development context and derives from an overall vision of a democratic, prosperous Montenegro (and Serbia), moving toward Euro-Atlantic integration. Key themes include: improved governance accountable to constituents and responsive to the needs of the private

sector that, in turn, improves conditions for a market economy; more targeted assistance to municipalities and sectors to foster private sector growth; and increased political stability through strengthened democratic processes and structures, as well as more specific interventions in vulnerable areas. Given the crucial economic and democratic components embedded in each of these themes, an integrated approach that combines these elements in program design, implementation and measurement will have a higher aggregate impact. Integration of strategic elements reflects the philosophy that democratic and economic reforms are not only critical to an overall successful transformation in Montenegro but also inextricably linked to achieving successes in each reform area; democratic processes are an essential component of Montenegro's economic growth and stability, and economic growth is essential to create the conditions for a continuing stable democracy. Reform in the social sector is necessary; however, given the relative priority of economic and democratic challenges and the scarcity of resources to impact reform, it will not be a priority theme under the Strategy. The Strategy has three SOs:

- Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened. This SO concentrates on work at the republic level, strengthening policy and legal frameworks and implementation of those frameworks. A key component of the SO is improved governance, with better balance and delegations of authorities, cohesive policies and accountability to the public.
- Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities. This SO captures the local dynamic for private sector growth by improving the business climate and the capacity of key sectors and businesses to compete in the market.
- Strategic Objective 2.11: Risk of Political Instability Reduced. This SO will focus on the support of key democratic structures and processes at all levels Republic-wide to increase political stability. It will also improve conditions in specific, vulnerable areas, by increasing economic opportunities, civic participation and community interventions.

Key cross-cutting areas recognized in this strategy are: gender, youth, anti-corruption, human and institutional capacity development, job creation, media/public information, and crossborder integration.